

Message Text

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ACTION NEA-16

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 ISO-00 FEA-02 AEC-11

AID-20 CEA-02 CIAE-00 CIEP-02 COME-00 DODE-00 EB-11

FPC-01 H-03 INR-10 INT-08 L-03 NSAE-00 NSC-07 OMB-01

PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08 TRSE-00

PA-04 USIA-15 PRS-01 DRC-01 /227 W

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R 130754Z JUN 74

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 6865

AMEMBASSY JIDDA

INFO AMEMBASSY ABU DHABI

USINT ALGIERS

AMEMBASSY CARACAS

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

OECD PARIS 2273

EC BRUSSELS 482

S E C R E T TEHRAN 4858

E.O. 11652: GDS

TAGS: ENRG OPEC OECD IR

SUBJ: SAUDI LEVEL OF PRODUCTION COULD DETERMINE OIL PRICES

REF: JIDDA 3226 (NOTAL)

1. SUMMARY: IT IS OF COURSE CONCEIVABLE THAT THROUGH SUBSTANTIAL
INCREASE IN PRODUCTION SAG COULD HELP BRING ABOUT A REDUCTION
IN CURRENT INTERNATIONAL OIL PRICES. HOWEVER, WE FAIL TO SEE

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ANY POSSIBILITY OF SAG'S SUCCESSFULLY PERSUADING OPEC PARTNERS

TO AGREE TO A REDUCTION IN PRICES. INDEED WE FEEL SAG IS TOTALLY ISOLATED FROM ITS OPEC PARTNERS ON THIS POINT. SOME OF LATTER, INCLUDING IRAN, MIGHT CUT PRODUCTION TO LIMIT EFFECTS OF SAUDI PRODUCTION INCREASES. IN OUR VIEW MOST CONSTRUCTIVE COURSE OF ACTION FOR USG IN ATTEMPTING TO RATIONALIZE OIL PRICES CONTINUES TO BE A PRODUCER/CONSUMER DIALOGUE. END SUMMARY.

2. THROUGH SIGNIFICANTLY INCREASED PRODUCTION, SAUDI ARABIA MAY BE ABLE TO BRING ABOUT SOME DECREASE IN INTERNATIONAL OIL PRICES THIS YEAR. CERTAINLY THE GOI IS AWARE OF THIS POSSIBILITY. IT IS ALSO CONCEIVABLE THAT A RECESSION AND BALANCE OF PAYMENTS DIFFICULTIES IN CONSUMER NATIONS COULD CONTRIBUTE TO LOWERING OF PRICES BY LOWERING WORLD DEMAND. FROM OUR VANTAGE POINT, HOWEVER, IT APPEARS THAT YAMANI IS ALL BUT ISOLATED IN OPEC. IMPRESSION WE HAVE IS (A) THAT KUWAITIS CONSIDER THEIR POLICIES ON PRICE TO BE VIRTUALLY IDENTICAL TO GOI'S AND THAT STRONG FORCES THERE ARE PUSHING FOR LOWER PRODUCTION LIMITS, (B) THAT IN ABU DHABI, OTAIBA STANDS ALONE IN SUPPORTING (TO SOME EXTENT) YAMANI'S VIEW, WHILE OTHER OIL ADVISORS THERE ARE RECOMMENDING CUTBACKS, (C) THAT VENEZUELA HAS REDUCED PRODUCTION FOR CONSERVATION REASONS AND MIGHT BE DISPOSED TO DO SO AGAIN, (D) THAT IRAQ HAS SHOWN ITSELF WILLING (EVEN WHILE BUILDING INCREASED CAPACITY) TO REDUCE PRODUCTION RATHER THAN ACCEPT LOWER PRICES, (E) THAT INDONESIA AND NIGERIA ARE UNLIKELY IN SHORT RUN EITHER TO INCREASE OR DECREASE PRODUCTION SIGNIFICANTLY, (F) THAT ALGERIA IS UNWILLING TO ACCEPT PRICES LOWER THAN ITS OFFICIAL SELLING PRICE, AND (G) THAT LIBYA, WHILE IT HAS LOWERED ITS SELLING PRICE, IS ALSO HOSTILE TO YAMANI'S POLICY. SHAH HAS SAID (IN APRIL 8 INTERVIEW WITH "JEUNE AFRIQUE" MAGAZINE) THAT OIL PRICES ARE AT "MINIMUM" AND IRAN WOULD BE PERFECTLY WILLING TO "LEAVE OIL IN GROUND FOR PETROCHEMICALS," IF CONSUMERS CONFRONT PRODUCERS ON PRICE. WE SUSPECT, THEREFORE, THAT IRAN MAY CUT PRODUCTION IF "MARKET FORCES" PUT MUCH DOWNWARD PRESSURE ON PRICE OF OIL. WHETHER THE SHAH IS AS DETERMINED TO COUNTER ANY EROSION OF PRESENTLY ANTICIPATED BENEFITS FROM CHANGING PARTICIPATION ARRANGEMENTS AS HE IS TO RESIST A LOWERING OF POSTED PRICE IS SOMEWHAT LESS CERTAIN BUT THE RECORD SUGGESTS THAT HE IS.

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3. IN VIEW OF ABOVE, KEY QUESTION, IT SEEMS TO US, IS EXTENT TO WHICH SAG WILL BE WILLING TO BREAK RANKS WITH ITS OPEC PARTNERS AND RISK POLITICAL CONFRONTATION SUCH ACTION WOULD IMPLY. FURTHER, THOSE PARTNERS THROUGH REDUCED PRODUCTION MAY BE ABLE AT LEAST TO LIMIT THE EFFECTS OF, IF NOT WHOLLY TO THWART, SAG ATTEMPTS TO LOWER PRICES THIS YEAR.

4. COMMENT: MAJOR OIL COMPANIES AS WELL AS NUMEROUS EUROPEAN

GOVERNMENTS, NOTABLY U.K., APPEAR TO US TO BE PESSIMISTIC ABOUT PROSPECTS FOR SIGNIFICANT DROP IN COST OF OIL TO COMPANIES IN 1974. U.K. VIEW, AS WE UNDERSTAND IT, IS THAT OIL PRICES PROBABLY WILL REMAIN HIGH DUE TO OPEC SOLIDARITY. WE FEEL THAT IN PRESENT SITUATION USG SHOULD BALANCE SIGNIFICANCE OF HARD-NOSED VIEWS OF MAJORITY OF OPEC MEMBERS AS AGAINST HELPFUL ATTITUDE OF ANY INDIVIDUAL MEMBER. IN THIS CONNECTION, IT REMAINS OUR VIEW THAT MOST PROMISING COURSE OF ACTION IS FOR USG TO CONCENTRATE ON PREPARATION FOR PRODUCER/CONSUMER MEETING. YAMANI'S PROPOSED "SMALL MEETING" MAY BE ONE APPROACH OR PURSUIT OF THE ORIGINAL ECG CONCEPT MAY BE ANOTHER. PREPARATIONS FOR SUCH A DIALOGUE, WE FEEL, SHOULD INCLUDE WELL-SUPPORTED REPLIES TO OPEC ARGUMENTS, WELL-DOCUMENTED EXPLANATIONS OF WHY USG FEELS PRESENT SITUATION IS DANGEROUS AND UNSUSTAINABLE, AND ABOVE ALL, WELL-THOUGHT-OUT PROPOSALS FOR COOPERATION AS AN ALTERNATIVE TO WAITING FOR PRICES TO DRIFT, BE IT DOWNWARD OR UPWARD.
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